



**Director of  
Central  
Intelligence**

~~Top Secret~~



# National Intelligence Daily

**Tuesday  
7 July 1987**



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**Contents**



25X1

**Hungary:** Plenum Endorses Austerity, Reform ..... 3

**Jordan:** Prospects for Parliamentary Election ..... 4

**Notes**



25X1

**Canada:** Financial Deregulation on Rocky Road ..... 5

**El Salvador:** Government Offensive Winding Down ..... 6



25X1

**Zaire:** Opposition Elements Reconcile With Regime ..... 7

**In Brief** ..... 8

**Special Analyses**

**El Salvador:** Searching for Economic Stability ..... 9

**Iran-Iraq:** Response to Increasing Iraqi Oil Exports ..... 11

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**Top Secret**

7 July 1987

25X1

**Page Denied**

Next 1 Page(s) In Document Denied

**Top Secret**

25X1

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**HUNGARY:****Plenum Endorses Austerity, Reform**

***Hungary's second Central Committee plenum in two weeks has endorsed an economic program that combines tough austerity measures to address growing external debt problems and an acceleration of economic reforms.***

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The program calls for an end to subsidies for unprofitable enterprises, the closing of bankrupt firms, and price increases to limit consumption. It endorses greater scope for market forces in designated areas of the economy, including consumer goods and construction, and more private investment through the sale of bonds. Top party and government officials have told the Embassy they expect these measures to lead to a significant decline in living standards.

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The plenum's communique gave only broad outlines of the program, in keeping with the party's plan to withdraw from day-to-day management of the economy. The government, which new Premier Karoly Grosz says is to assume a larger role in economic policy, will draw up specific measures by September.

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**Comment:** These policies have been under public discussion and internal debate for months. The severity of the economy's problems and prodding from Moscow have apparently convinced the leadership of the need for tough action, even at the risk of increasing social tension. Strikes and demonstrations are likely at enterprises that reduce their labor force as government subsidies end. Discontent over higher prices is also likely to increase, although widespread public demonstrations are unlikely as long as basic commodities, such as food, are still plentiful and affordable.

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**Top Secret**

7 July 1987

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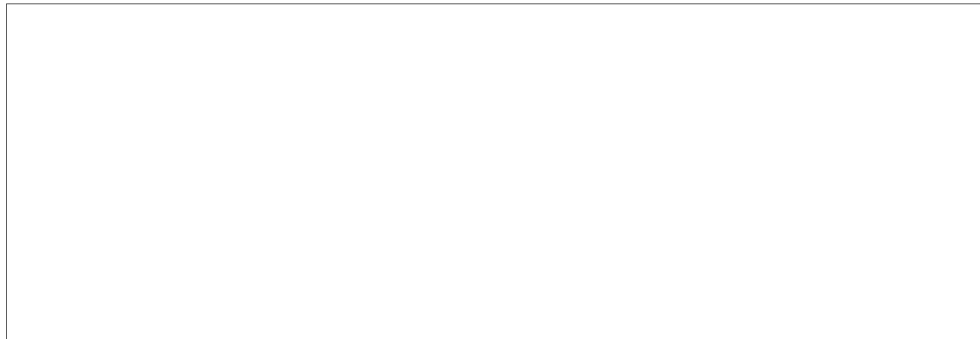
**JORDAN:****Prospects for Parliamentary Election**

***Popular support for a parliamentary election is building in Jordan, but King Hussein must balance public demands for a more open and democratic political system with his concern for the regime's stability.*** [redacted]

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Although the last general parliamentary election was held 20 years ago, public enthusiasm for holding a new election was stimulated in early May when the government's voter registration drive attracted 75 to 82 percent of the country's eligible voters, according to Jordanian official estimates. The four-year term of the current parliament expires in January, but Hussein is empowered by the Constitution to extend parliament's mandate for as much as two years. If he decides to hold a national election, it must take place during the last four months of the current session. [redacted]

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**Comment:** The King has given no sign that he will either call for an election this year or extend parliament's mandate; according to the Constitution, he must decide by early September. Ensuring domestic stability will be uppermost in his mind, and he will weigh carefully the assessment of his security services. The belief [redacted] that the security risks posed by the election of Islamic fundamentalist, leftist, or pro-PLO Palestinians are not great increases the prospects for holding a general election. [redacted]

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If Hussein concludes that his opponents could exploit an election campaign to the point of threatening his regime or upsetting the national consensus, he undoubtedly would extend parliament's term. As popular expectations of an election have risen, however, the cost of a postponement, as measured by public disappointment and disillusionment, also has increased. [redacted]

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**CANADA: Financial Deregulation on Rocky Road**

Federal efforts to exert control over provincial moves to liberalize financial markets may provoke a test of Ottawa's constitutional powers to regulate the provinces' securities industries [redacted]

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[redacted] The new measures, introduced to keep pace with liberalization in Ontario, Canada's financial center, would largely remove barriers between banks, trust and insurance companies, and securities dealers. The dispute revolves around Ottawa's moves to control relatively unregulated trading among large institutional investors, the so-called "exempt" market. Even Ontario, which had agreed to share control with Ottawa, now says it may join the other provinces in invoking constitutional guarantees of their primacy in property matters. Ottawa argues that it has the right to regulate federally chartered institutions. [redacted]

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**Comment:** The provinces fear their interests will suffer if Ottawa is able to control regional capital flows, perhaps for political ends. They are counting on their ability to force Prime Minister Mulroney's government to make major concessions, as it did recently to gain Quebec's approval of the 1982 constitution. [redacted]

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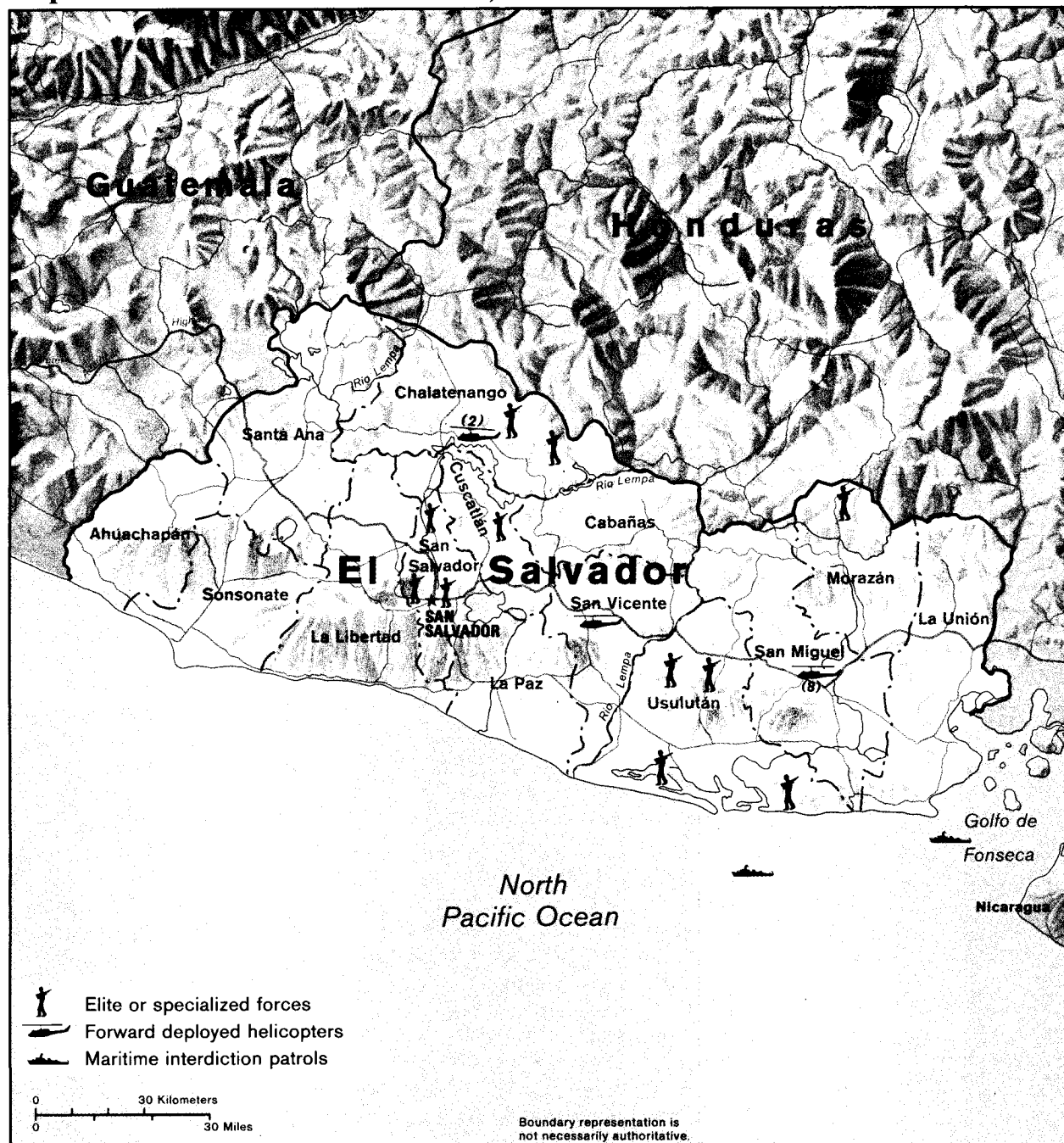
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**Disposition of Elite Government Forces, 30 June 1987**

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7 July 1987



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**EL SALVADOR: Government Offensive Winding Down**

The Salvadoran Government has slowed its seven-week-old nationwide counterinsurgency offensive and is preparing to end the operation [redacted] have *reps* 25X1, been engaged in operational, patrol, or security duties, and elite units have focused on key insurgent strongholds. ~~The government reports killing 178 guerrillas while suffering 46 dead as of 30 June~~ 25X1 The guerrillas are taking advantage of the lull in operations to place additional landmines and boobytraps, which have accounted for many of the [redacted] troops wounded so far in the operation. 25X1

**Comment:** The offensive has dealt the guerrillas some painful blows, particularly in the first two weeks when the insurgents suffered more than half their losses. Since then, however, the guerrillas have adjusted to government tactics and concentrated on evading government forces to minimize casualties. Once the offensive is over, insurgent activity in the countryside probably will resume at or near earlier levels, and the guerrillas may attempt a large-scale, spectacular attack to demonstrate their continued strength. The guerrillas may attempt to increase forcible recruitments to offset some of their losses. [redacted] 25X1

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**ZAIRE: Opposition Elements Reconcile With Regime**

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President Mobutu's announcement that several opposition leaders have agreed to rejoin his ruling party marks another success for his longstanding practice of co-opting political adversaries. ~~The US Embassy reports that~~ leading members of the banned Union for Democracy and Social Progress—Zaire's only internally based opposition group—~~apparently~~ have scrapped demands the group be legalized; they may receive cabinet posts or parliamentary seats in return for rallying to Mobutu's Popular Movement for the Revolution. The regime had banished most UDPS leaders to their home villages when earlier reconciliation talks collapsed in June 1986, contributing to the group's disarray.

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**Comment:** The integration of several key UDPS leaders into the ruling party effectively eliminates the only credible, nonviolent opposition group in Zaire. Several armed dissident groups remain in neighboring states, but they are too fragmented to pose a serious threat to Mobutu's grip on power. Pressure on Mobutu from Western aid donors to improve his human rights performance probably contributed to the regime's willingness to seek a reconciliation. UDPS members evidently concluded that Mobutu would not legalize their party, however, and decided that they can influence Zaire's political course more effectively by working within the system.

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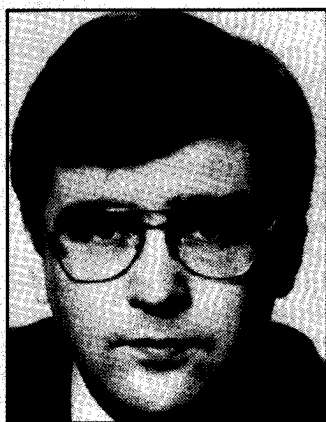
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### Iceland: New Coalition Government

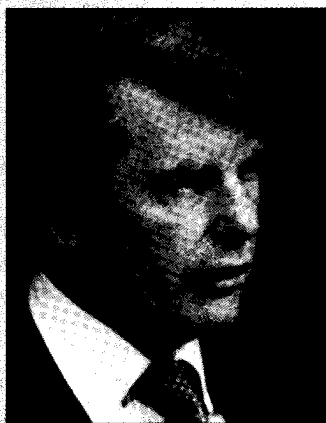


#### Prime Minister Thorsteinn Pálsson

Age 39 . . . chairman of conservative Independence Party, member of parliament since 1983 . . . led party to worst electoral defeat ever in April 1987, regained mandate after several attempts at forming a coalition failed [redacted]

[redacted] took two years trying to win a Cabinet post as Finance Minister in previous government . . . skilled negotiator . . . well-disposed toward US, strongly supports US presence at NATO base at Keflavik.

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#### Foreign Minister Steingrímur Hermannsson

Age 59 . . . Prime Minister since 1983 . . . chairman of centrist Progressive Party since 1979 . . . may run for president in 1988 . . . recently visited USSR, China . . . friendly toward US . . . accepts presence of US troops at Keflavik but wants no increase . . . Minister of Fisheries and Communications 1980-83 . . . engineer with Southern California Edison Company during mid-1950s . . . holds engineering degrees from Illinois and California Institutes of Technology . . . son of Iceland's longest serving Prime Minister.

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**Top Secret**

7 July 1987

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**Top Secret**

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**In Brief****Europe**

**Iceland's** Independence Party Chairman Thorsteinn Palsson to head three-party center-right coalition, former Prime Minister Hermannsson named Foreign Minister . . . supports US, Keflavik NATO base, resents US pressure on whaling issues.

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Gen. Necip Torumtay named chief of **Turkish** General Staff, according to US Embassy . . . pro-US, pro-NATO . . . picked by Prime Minister Ozal over outgoing chief's handpicked successor . . . shows growing civilian control over military.

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Bosko Kronic beginning one-year rotation as head of **Yugoslav** Communist Party, according to press . . . faces decline in party unity, increase in ethnic tensions . . . opposes recentralization, which would cut regional power base.

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**Americas**

President Garcia announced **Sunday Peru** will adhere strictly to foreign debt repayment limits . . . 35-percent minimum wage increase, modest tax increases, cuts in business loan interest rates also announced . . . likely to be inflationary.

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**Haiti** paralyzed yesterday by resumption of general strike in Port-au-Prince, other cities . . . some opposition leaders, clergy calling for political settlement . . . others still demanding government's ouster . . . protests likely to continue.

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**Middle East**

**Sudan's** imprisoned former Vice President Omar al-Tayyib to be released for undetermined medical treatment in **Saudi Arabia**, according to US Embassy . . . humanitarian gesture, probably intended to increase Saudi, US support for Khartoum.

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**USSR**

**USSR** deporting leader of mass demonstration in Riga last month to **Israel**, according to press . . . other organizers detained and released . . . suggests regime not relaxing use of repressive measures against non-Russian nationalists.

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**South Asia**

**Sri Lanka's** Tamil insurgents claim to have captured strategic town in north . . . first major attack since May

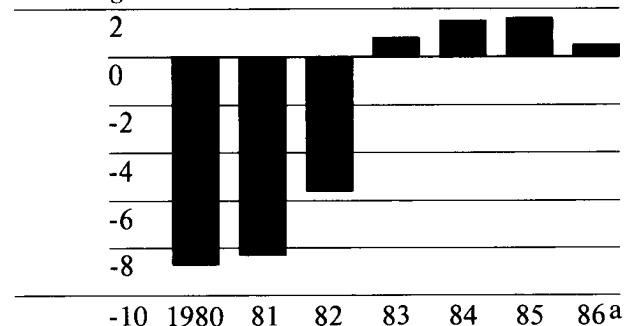
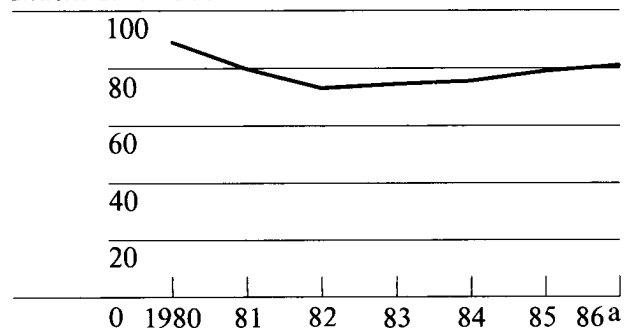
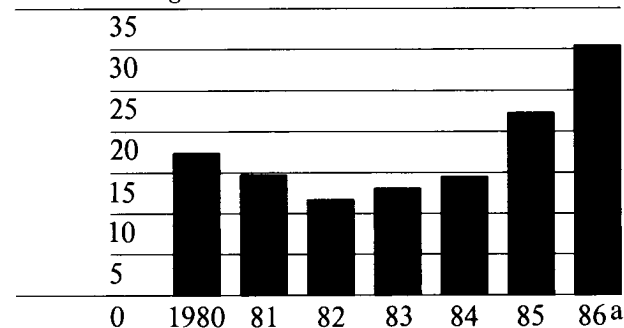
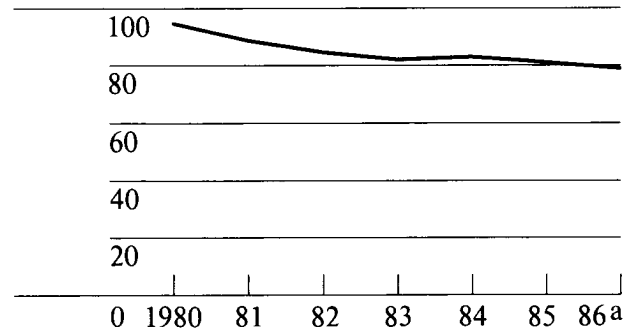
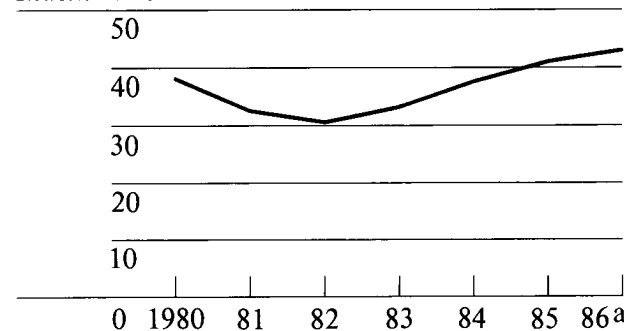
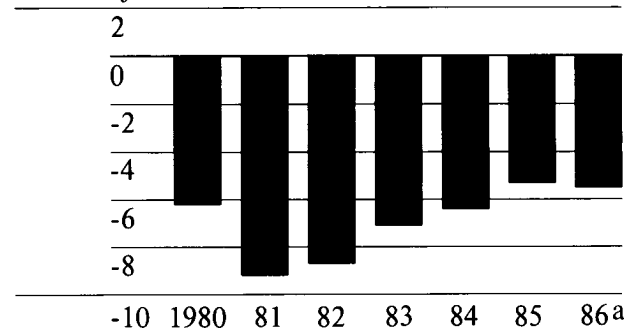
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**El Salvador: Selected Economic Indicators, 1980-86***Note scale change***Real GDP***Annual growth rate***Manufacturing Output***Index: 1979=100***Consumer Price Index***Annual change***Agricultural Output***Index: 1979=100***Gross Fixed Private Domestic Investment***Index: 1978=100***Overall Deficit--Central Government<sup>b</sup>***Percent of GDP*<sup>a</sup> Preliminary.<sup>b</sup> Before grants.

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**Top Secret**

7 July 1987

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**Special Analysis****EL SALVADOR:****Searching for Economic Stability**

*El Salvador remains mired in an economic slump exacerbated by low commodity prices, government mismanagement, and a costly insurgency. President Duarte has undertaken a series of economic initiatives he hopes will promote growth and shore up support for his party before key legislative elections next year. The economy is not likely to rebound, however, in the absence of more fundamental structural reforms, improved administration, and sharply higher levels of private investment.*

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Declining coffee tax revenues and a successful rightwing challenge to a proposed tax on wealth earlier this year will increase the government's unfinanced budget deficit to nearly \$50 million, according to the US Embassy. This has caused inflation to grow rapidly; it now stands at 40 percent and could reach 60 percent by the end of the year. Low commodity prices, combined with a 25-percent drop in agricultural output since 1980, could swell the trade deficit this year to more than \$500 million, according to the Embassy.

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**New Measures**

In his state-of-the-nation speech last month, Duarte proposed initiatives to spur growth, investment, and employment. They include tax incentives to stimulate production—particularly in coffee and cotton—and a new foreign investment law. Although the President flatly rejected needed currency devaluation, one proposed law will in effect create a small parallel exchange rate for some exports that would improve access to foreign exchange.

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The Embassy reports the government's revised 1987 economic program includes selective utility rate hikes and, in an effort to rein in inflation, limits on credit and the growth of the money supply. San Salvador also plans limited tax increases and budget cuts that would shave the budget deficit.

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**Familiar Constraints**

Initial reaction to the new proposals has been lukewarm, according to the Embassy, and there are increasing doubts among all sectors of society that Duarte will be able to achieve a national consensus on reviving the economy. He has kept the support of democratic labor groups, which lobbied heavily against devaluation, but business

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leaders decried the government's lack of consultation on the new package, and confidence in the government generally is low. Although the new measures may stimulate limited new investment, businessmen remain unwilling to undertake investments necessary to fuel growth. [ ]

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~~Red tape and~~ inefficiency are also plaguing efforts to revive the economy, particularly in the nationalized banking and coffee sectors, according to the Embassy. Even though he originally proposed it, Duarte recently refused to sign a bill reforming the state coffee marketing monopoly. Meanwhile, his options and the prospects for growth remain limited by the effects of last year's earthquake and a costly seven-year insurgency that continue to drain scarce budget and managerial resources. [ ]

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### Outlook

US economic aid and international earthquake reconstruction assistance will help to prevent a serious economic decline this year, but real growth is unlikely to exceed 1 percent, and living standards and support for the government will continue to decline. Political pressures will make it difficult for Duarte to implement comprehensive measures—including significant tax hikes or spending cuts, or currency devaluation—to strengthen the economy. With legislative elections less than a year away, the President and others in his party repeatedly have told Embassy officials they cannot begin any initiatives that would further erode popular support. [ ]

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Although some in the military have become increasingly disenchanted with the President's performance, according to a source of the US defense attache, Duarte can count on strong backing from senior officers. The High Command is willing to accept civilian lethargy and mismanagement because it believes US military assistance is tied to continued civilian rule and because the Salvadoran insurgents seem unable to mobilize much urban support or protest activity. [ ]

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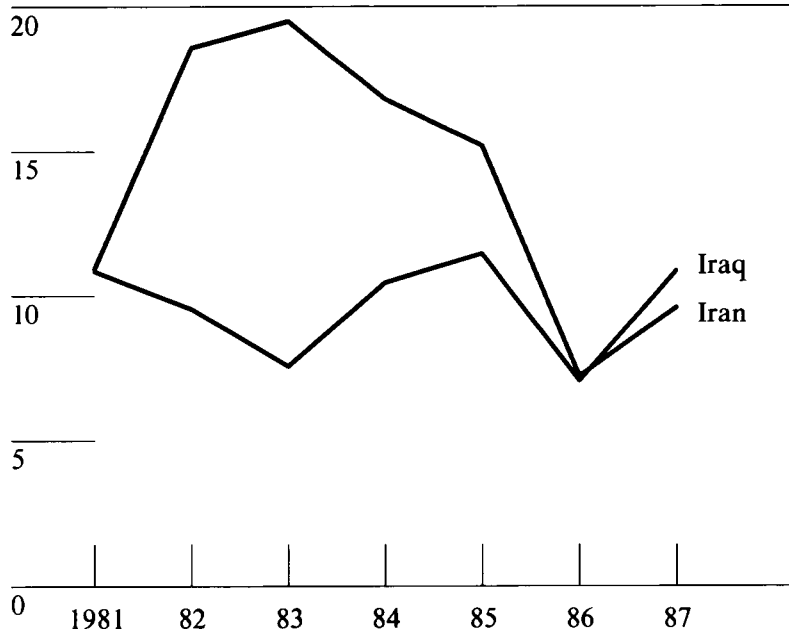
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**Iran-Iraq:  
Oil Export Revenues,  
1981-87<sup>a</sup>***Billion US \$*

<sup>a</sup> Total export revenues do not account for imports of petroleum products, which are substantial for Iran.

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**Top Secret**

7 July 1987

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**Special Analysis****IRAN-IRAQ:****Response to Increasing Iraqi Oil Exports**

*Iran is likely to view increased Iraqi oil exports through Turkey in coming months as strengthening Iraq's economic hand in the war. Tehran lacks the military capability to interdict the exports, however, and may instead press Saudi Arabia and Kuwait to restrict Iraqi oil exports.*

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Baghdad will gain 500,000 barrels per day of additional export capacity when its new pipeline through Turkey is fully operational this fall. It could gain another 400,000 b/d within six months if Damascus agrees to reopen the Iraq-Syria pipeline

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Iran's ability to export more oil than Iraq has worked in Tehran's favor throughout most of the war, and Iran will view increased Iraqi oil revenue as a major blow. Tehran would lose much of the ability to wear down the Iraqi economy, and increased Iraqi oil exports would also undercut Iran's efforts to raise prices by limiting production.

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Iran is not likely to be able to cut Iraqi exports by military means. Occasional Iranian air, missile, and artillery attacks and sabotage against Iraqi export facilities have had little effect. Iranian-backed Kurdish forces in northern Iraq are not a significant threat to the Iraq-Turkey pipeline because the oil facilities are well protected and Iran is reluctant to antagonize Turkey.

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Iran probably believes it can intimidate Saudi Arabia into restricting Iraqi oil exports through the Iraqi-Saudi spurline. Tehran believes the Saudis have been more willing to support its positions in OPEC since Iran attacked some Saudi ships last summer.

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Tehran is trying to increase its own exports, but war damage and poor maintenance since the revolution have reduced production capacity that probably cannot increase beyond 3 million b/d from its current 2.5-million-b/d level.

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When Iraqi exports increase this fall, Iran probably will use a combination of diplomacy and threats of force to coerce Saudi Arabia and Kuwait to stop facilitating these exports. If diplomacy fails, Iran could renew attacks on Saudi tankers or conduct terrorist attacks against oil facilities or low-level Gulf officials.

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